

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED MARCH 31, 2008**

**JOHNSON & SCHULZE PC**

**VILLAGE OF LINCOLN**  
**ALCONA COUNTY, MICHIGAN**

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# Auditing Procedures Report

Instructions and MuniCodes

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* VILLAGE OF LINCOLN	County* ALCONA	Type* VILLAGE	MuniCode* 01-3-010
Opinion Date-Use Calendar* Sep 30, 2008	Audit Submitted-Use Calendar* Oct 3, 2008	Fiscal Year End Month* 03	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies?
	<input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> ? \$ 173,843.00
General Fund Expenditure:	<input type="checkbox"/> ? \$ 167,655.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="checkbox"/> ? \$ 283,788.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> ? \$ 84,325.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* KRISTY	Last Name* SCHULZE	Ten Digit License Number* 1101025896		
CPA Street Address* 1223 S STATE ST STE A	City* ALPENA	State* MI	Zip Code* 49707	Telephone* +1 (989) 354-8707
CPA Firm Name* JOHNSON & SCHULZE P.C.	Unit's Street Address* 117 W. FISKE	Unit's City* LINCOLN	Unit's Zip* 48742	

1223 S. State, Suite A  
P.O. Box 901  
Alpena, MI 49707

**INDEPENDENT AUDITOR'S REPORT**

989-354-8707  
FAX 989-354-8708

Village Council  
Village of Lincoln  
Alcona, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **Village of Lincoln, Alcona County, Michigan**, (the "Village"), as of and for the year ended March 31, 2008, which collectively compose the Village's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **Village of Lincoln, Alcona County, Michigan**, as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, of those activities and fund and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The **Village of Lincoln, Alcona County, Michigan** has not presented a Management's Discussion and Analysis ("MD&A") as required supplemental information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The combining fund statements described in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2008, on our consideration of internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, grants and contracts. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Johnson & Schulze PC  
Alpena, Michigan  
September 30, 2008

SHANNA M. JOHNSON, CPA

KRISTY L. SCHULZE, CPA

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
MARCH 31, 2008**

	PRIMARY GOVERNMENT			COMPONENT UNIT
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
<b>ASSETS</b>				
Cash and Cash Equivalents (Note 3)	\$ 230,996	\$ 20,744	\$ 251,740	\$ 73,230
Investments (Note 3)	213,036	-	213,036	-
Other receivables (net of allowance for uncollectible accounts) (Note 1)	9,298	1,296	10,594	94,048
Capital Assets (Note 6):				
Capital assets not being depreciated	1,000	-	1,000	-
Capital assets being depreciated	290,748	471,008	761,756	168,822
Less: accumulated depreciation	(95,999)	(228,162)	(324,161)	(29,489)
<b>Total Assets</b>	<b>649,079</b>	<b>264,886</b>	<b>913,965</b>	<b>306,611</b>
<b>LIABILITIES</b>				
Accrued liabilities (Note 1)	2,060	-	2,060	-
Accrued Interest (Note 1)	3,255	-	3,255	-
Note Payable				
Amount due within one year	12,646	-	12,646	-
Amount due more than one year	71,679	-	71,679	-
<b>Total Liabilities</b>	<b>89,640</b>	<b>-</b>	<b>89,640</b>	<b>-</b>
<b>NET ASSETS (Note 1)</b>				
Investment in capital assets net of related debt	387,747	242,846	630,593	139,333
Unrestricted	171,692	22,040	193,732	167,278
<b>Total Net Assets</b>	<b>\$ 559,439</b>	<b>\$ 264,886</b>	<b>\$ 824,325</b>	<b>\$ 306,611</b>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED MARCH 31, 2008**

FUNCTIONS / PROGRAMS	PROGRAM REVENUES			
	Expenses	Charges for Services	Operating Grants / Contributions	Capital Grants / Contributions
<b><u>Governmental Activities</u></b>				
Legislative	\$ 7,320	\$ -	\$ -	\$ -
General government	90,845	25,290	-	-
Recreation and culture	21,932	-	-	10,120
Public safety	39,875	37,764	-	2,220
Public works / Transportation	139,229	-	57,814	-
<b>Total Governmental Activities</b>	<b>299,201</b>	<b>63,054</b>	<b>57,814</b>	<b>12,340</b>
<b><u>Business-type Activities</u></b>				
Equipment rental fund	32,165	35,358	-	-
Sewer	16,622	16,842	-	-
<b>Total Business-type Activities</b>	<b>48,787</b>	<b>52,200</b>	<b>-</b>	<b>-</b>
<b>Total Government</b>	<b>347,988</b>	<b>115,254</b>	<b>57,814</b>	<b>12,340</b>
<b><u>Component Unit</u></b>				
Downtown Development Authority	\$ 300,876	\$ 3,115	\$ -	\$ -
<b>Total Component Unit</b>	<b>\$ 300,876</b>	<b>\$ 3,115</b>	<b>\$ -</b>	<b>\$ -</b>
<b><u>General-Purpose Revenues</u></b>				
Property taxes				
State - shared revenues				
Unrestricted investment earnings				
Other revenue				
<b>Total General-Purpose Revenues</b>				
<b>Change in Net Assets</b>				
<b>Net Assets, beginning of year</b>				
<b>Net Assets, end of year</b>				

NET REVENUE & CHANGES IN NET ASSETS			COMPONENT UNIT
Governmental Activities	Business-type Activities	Total	Downtown Development Authority For the year ended April 30, 2007
\$ (7,320)	\$ -	\$ (7,320)	
(65,555)	-	(65,555)	
(11,812)	-	(11,812)	
109	-	109	
(81,415)	-	(81,415)	
(165,993)	-	(165,993)	
-	3,193	3,193	
-	220	220	
-	3,413	3,413	
(165,993)	3,413	(162,580)	
			\$ (297,761)
			\$ (297,761)
69,714	-	69,714	99,613
27,304	-	27,304	-
8,536	2,709	11,245	2,216
18,963	-	18,963	-
124,517	2,709	127,226	101,829
(41,476)	6,122	(35,354)	(195,932)
600,915	338,004	938,919	502,543
\$ 559,439	\$ 344,126	\$ 903,565	\$ 306,611

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
MARCH 31, 2008**

	<b>MAJOR GOVERNMENTAL FUNDS</b>			<b>NON MAJOR FUND</b>	
	<b>General</b>	<b>Major Street</b>	<b>Village Raised Street</b>	<b>Local Street Fund</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents (Note 3)	\$ 181,654	\$ 24,453	\$ 16,453	\$ 8,436	\$ 230,996
Investments (Note 3)	98,036	50,000	50,000	15,000	213,036
Other receivables (Note 1)	6,158	-	3,140	-	9,298
<b>Total Assets</b>	<b>\$ 285,848</b>	<b>\$ 74,453</b>	<b>\$ 69,593</b>	<b>\$ 23,436</b>	<b>\$ 453,330</b>
<b>LIABILITIES</b>					
Accrued liabilities (Note 1)	\$ 2,060	\$ -	\$ -	\$ -	\$ 2,060
<b>Total Liabilities</b>	<b>2,060</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,060</b>
<b>FUND BALANCES</b>					
Unreserved-undesignated	283,788	74,453	69,593	23,436	451,270
<b>Total Fund Balances</b>	<b>283,788</b>	<b>74,453</b>	<b>69,593</b>	<b>23,436</b>	<b>451,270</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 285,848</b>	<b>\$ 74,453</b>	<b>\$ 69,593</b>	<b>\$ 23,436</b>	<b>\$ 453,330</b>

The accompanying notes are an integral part of the financial statements.



**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET TO STATEMENT OF NET ASSETS  
MARCH 31, 2008**

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Total Fund Balances - Governmental Funds	\$ 451,270
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Amounts reported for governmental activities in the  
statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the  
governmental funds balance sheet:

Capital assets, at cost	291,748
Accumulated depreciation	(95,999)

Long term debt is not due and payable in the current period and is not  
reported in the funds.

Note Payable	(84,325)
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Accrued interest payable is not reported in the funds	<u>(3,255)</u>
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Total Net Assets - Governmental Activities	<u>\$ 559,439</u>
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The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN**  
**ALCONA COUNTY, MICHIGAN**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE FISCAL YEAR ENDED MARCH 31, 2008**

	MAJOR GOVERNMENTAL FUNDS			NON MAJOR FUNDS	Total
	General	Major Street	Village Raised Street	Local Street Fund	
<b>REVENUES</b>					
Taxes	\$ 47,104	\$ -	\$ 22,610	\$ -	\$ 69,714
Intergovernmental income	27,304	41,710	-	12,997	82,011
Local grants	12,340	-	-	-	12,340
Charges for services	37,764	-	-	-	37,764
Interest and rentals	5,078	313	2,955	190	8,536
Reimbursements and refunds	25,130	-	-	-	25,130
Other revenue	19,123	3,108	-	-	22,231
<b>Total Revenues</b>	<b>173,843</b>	<b>45,131</b>	<b>25,565</b>	<b>13,187</b>	<b>257,726</b>
<b>EXPENDITURES</b>					
Legislative	7,320	-	-	-	7,320
General government	77,820	-	-	-	77,820
Public safety	32,561	-	-	-	32,561
Capital Outlay	1,252	-	-	-	1,252
Debt service-principal	12,069	-	-	-	12,069
Debt service-interest	4,059	-	-	-	4,059
Recreation and culture	21,932	-	-	-	21,932
Public works / Transportation	10,642	94,077	-	34,510	139,229
<b>Total Expenditures</b>	<b>167,655</b>	<b>94,077</b>	<b>-</b>	<b>34,510</b>	<b>296,242</b>
Excess (Deficiency) of Revenues over Expenditures	6,188	(48,946)	25,565	(21,323)	(38,516)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer from other funds	-	-	-	-	-
Transfer to other funds	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>6,188</b>	<b>(48,946)</b>	<b>25,565</b>	<b>(21,323)</b>	<b>(38,516)</b>
<b>Fund Balance, beginning of year</b>	<b>277,600</b>	<b>123,399</b>	<b>44,028</b>	<b>44,759</b>	<b>489,786</b>
<b>Fund Balance, end of year</b>	<b>\$ 283,788</b>	<b>\$ 74,453</b>	<b>\$ 69,593</b>	<b>\$ 23,436</b>	<b>\$ 451,270</b>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
GOVERNMENTAL FUNDS  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED MARCH 31, 2008**

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Net change in Fund Balances - Governmental Funds	\$ (38,516)
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Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures, while in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital Outlay	1,252
Less: Depreciation expense	(13,026)

Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces the liability)	16,128
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds

Interest related to long term debt	<u>(7,314)</u>
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Change in Net Assets - Governmental Activities	<u><u>\$ (41,476)</u></u>
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The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
PROPRIETARY FUND  
STATEMENT OF NET ASSETS  
MARCH 31, 2008**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	INTERNAL SERVICE FUND
	Sewer Fund	Equipment Rental Fund
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 20,744	\$ 2,151
Investments (Note 3)	-	50,000
Receivables (Note 1)	1,296	-
Total Current Assets	<u>22,040</u>	<u>52,151</u>
Noncurrent Assets		
Capital assets (Note 6):		
Capital Assets not being depreciated	-	1,000
Capital Assets being depreciated	471,008	182,495
Accumulated depreciation	(228,162)	(156,406)
Total noncurrent assets	<u>242,846</u>	<u>27,089</u>
Total Assets	264,886	79,240
<b>LIABILITIES</b>		
Current Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>
<b>NET ASSETS (Note 1)</b>		
Invested in capital assets net of related debt	242,846	27,089
Unrestricted	22,040	52,151
Total Net Assets	<u>\$ 264,886</u>	<u>\$ 79,240</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
PROPRIETARY FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS  
FOR THE FISCAL YEAR ENDED MARCH 31, 2008**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	INTERNAL SERVICE FUND
	Sewer Fund	Equipment Rental Fund
<b>OPERATING REVENUES</b>		
Charges for services	\$ 16,842	\$ -
Charges to other funds	-	35,358
Total Operating Revenues	16,842	35,358
<b>OPERATING EXPENDITURES</b>		
Contractual services	1,300	-
Utilities	175	2,839
Supplies and other	2,740	21,699
Depreciation	12,406	7,628
Total Operating Expenditures	16,621	32,166
Operating Income (Loss)	221	3,192
<b>NONOPERATING REVENUES (EXPENDITURES)</b>		
Interest income	316	2,393
Total Nonoperating Revenues (Expenditures)	316	2,393
Change in Net Assets	537	5,585
Net Assets, beginning of year	264,349	73,655
Net Assets, end of year	\$ 264,886	\$ 79,240

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
PROPRIETARY FUND  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED MARCH 31, 2008**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS
	Sewer Fund	Equipment Rental
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 15,762	\$ 35,358
Cash payments to suppliers for goods and services	(14,021)	(24,537)
Net Cash provided by operating activities	1,741	10,821
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(8,500)	-
Net Cash provided (used) by capital and related financing activities	(8,500)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	316	2,393
Net increase (decrease) in cash	(6,443)	13,214
Cash, beginning of year	27,187	38,937
Cash, end of year	\$ 20,744	\$ 52,151
<b>Reconciliation of Income (Loss) from Operations to Net Cash Provided by Operating Activities</b>		
Income (loss) from operations	\$ 220	\$ 3,193
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities		
Depreciation	12,406	7,628
Prior period adjustment, (see note # 9)	(9,805)	-
Change in assets and liabilities:		
(increase) decrease in accounts receivable	(1,080)	-
Net cash provided (used) by operating activities	\$ 1,741	\$ 10,821

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
March 31, 2008**

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	<u>Agency Fund</u>	<u>Payroll Fund</u>	<u>Recreation Playground Project Fund</u>	<u>Total Fiduciary Funds</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	<u>\$ 856</u>	<u>\$ -</u>	<u>\$ 145</u>	<u>\$ 1,001</u>
<b><u>LIABILITIES</u></b>				
Due to state	756	-	-	756
Due to others	-	-	145	145
Due to other funds	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
Total Liabilities	<u>\$ 856</u>	<u>\$ -</u>	<u>\$ 145</u>	<u>\$ 1,001</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Village of Lincoln, Alcona County, Michigan (the "Village") conform to generally accepted accounting principles ("GAAP") as applicable to governments. The following is a summary of the most significant policies.

The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. During the fiscal year, the Village adopted the new governmental reporting model and implemented GASB Statement No.34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Under the provisions of this and the other of the most current GASB statements, the focus of the Village's financial statements has shifted from a fund focus to a government-wide focus.

**THE REPORTING ENTITY**

The Village is located in Alcona County, Michigan. The Village operates under an elected council of ten members and provides services to its residents in many areas including emergency medical treatment, fire protection and street maintenance.

The Village's basic financial statements include the accounts of all Village operations. The criteria for including organizations as component units within the Village's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Village holds the corporate powers of the organization
- The Village appoints a voting majority of the organization's board
- The Village is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Village; and/or
- There is fiscal dependency by the organization on the Village

**Discretely Presented Component Unit**

The component unit column of the financial statements represents the financial data of the Downtown Development Authority. The Authority is reported in a separate column to emphasize that it is legally separate from the Village. The governing body of this component unit is appointed by the Village Council. The Downtown Development Authority was established to correct and prevent urban deterioration and encourage economic development, and neighborhood and historic preservation of the Village of Lincoln. The Downtown Development Authority uses an April 30, 2007 year end, which is what is presented in these financial statements. The April 30, 2007 financial statements are the most recent audited statements of the Downtown Development Authority. Complete financial statements can be obtained from the Village Clerk's office by calling (989) 736-6522.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.



**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008**

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***Note 1 - Summary of Significant Accounting Policies (Continued)***

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Major funds are generally those that represent ten percent (10%) or more of the respective fund type assets, liabilities, revenues or expenditures. All non-major funds are aggregated and presented in a single column.

**GOVERNMENTAL FUNDS**

Governmental funds are those funds through which most governmental functions are typically financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The Village reports the following major governmental funds:

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008**

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***Note 1 - Summary of Significant Accounting Policies (Continued)***

**General Fund**

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

**Major Street Fund**

The Major Street Fund is used to account for the maintenance and construction of the Village's major street system, including the receipt and expenditures of State motor fuel taxes, which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.

**Village Raised Street Fund**

The Village Raised Street Fund is used to account for the maintenance and construction of the Village's street system. Revenues are derived primarily from property taxes.

The Village reports the following non-major governmental fund:

**Local Street Fund**

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

**PROPRIETARY FUNDS**

**Sewer Fund**

The Sewer Fund accounts for fees collected for sewer services provided by the Village. Activities of the fund include administration, operating and maintenance of the sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

**Internal Service Fund**

The Internal Service Fund accounts for operations that provide services to other departments of the Village on a cost reimbursement basis. The Village uses this fund to account for equipment rental activity.

**FIDUCIARY FUNDS**

Fiduciary fund reporting focuses on net assets and changes in net assets.

These funds, used to account for assets held in trust or as an agent for others, include the Payroll fund, Agency fund, and Recreation Playground Project fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services,

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008**

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***Note 1 - Summary of Significant Accounting Policies (Continued)***

or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Village's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**ASSETS, LIABILITY AND NET ASSETS OR EQUITY**

**Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

**Receivables**

Receivables at March 31, 2008 consist of accounts (fees) and taxes. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The Accounts Receivable balance in the sewer fund consists primarily of charges for sewer services due from various customers. No allowance for doubtful accounts was deemed necessary at March 31, 2008.

**Accrued liabilities**

Accrued liabilities represent the payroll taxes and other various payables as of the end of the fiscal year.

**Accrued Interest**

Accrued interest represents the amount of interest on the note payable for the fire truck that has accrued from the time of the last payment through the end of the fiscal year.

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental activities column in the government-wide financial statements. The Village defines capital assets as assets with an initial individual cost of \$2,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repairs are charged to current expenditures as incurred. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

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*Note 1 - Summary of Significant Accounting Policies (Continued)*

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Land improvements	15-20 years
Vehicles	5-10 years
Furniture and other equipment	3-10 years

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent that portion of fund equity for which the Village has made tentative management plans that are subject to change. Undesignated fund balance indicates that portion of fund equity which is available for budgeting in future periods. As of March 31, 2008, there are no reservations or designations of fund balance within the Village's funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Village's policy is to first apply restricted resources when an expense is incurred for purposes of which both restricted and unrestricted net assets are available.

**OTHER SIGNIFICANT ACCOUNTING POLICIES**

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Village, these revenues are charges for services for sewer usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008**

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***Note 1 - Summary of Significant Accounting Policies (Continued)***

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Comparative Data**

Comparative data for the prior year is not included in the Village's financial statements.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of that applicable appropriation is not employed by the Village. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**BUDGETS AND BUDGETARY ACCOUNTING**

Budgets are adopted by Village officials in compliance with GAAP and State law, specifically P.A. 621 of 1978 (the Uniform Budgetary Act), for the General and Special Revenue Funds.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Village to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year; there was one significant amendment during the current fiscal year.

The Village follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year, commencing on April 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the Village Council.
5. All appropriations lapse at year-end.

Budgets are to be prepared on the same basis of accounting as the financial statements.

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS**

P.A. 621 of 1978, Section 18 (1), as amended (MCL 141.421 et seq.) provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the governmental funds have been shown on a functional basis.

During the year ended March 31, 2008, the Village incurred two expenditures that exceeded the amount appropriated. These expenditures were in public works and parks and recreation (see pages 26 - 27).

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008**

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**FUND DEFICITS**

The Village had no accumulated fund balance deficits.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

**CREDIT RISK**

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local governmental unit in Michigan. The Village's investment pools are unrated.

**CUSTODIAL CREDIT RISK - DEPOSITS - PRIMARY GOVERNMENT**

In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2008, \$322,199 of the Village's bank balance of \$522,199 was exposed to custodial risk because it was uninsured and uncollateralized.

**CUSTODIAL CREDIT RISK - DEPOSITS - COMPONENT UNIT**

In the case of deposits, this is the risk that in the event of a bank failure, the Downtown Development Authority's deposits may not be returned to it. As of March 31, 2008, \$0 of the Downtown Development Authority's bank balance of \$75,424 was exposed to custodial credit risk.

As of the date of this report, Huron Community Bank, the banking institution of the Village, has a four star rating, indicating that it is sound (five star being superior). Additionally, the Safe and Sound CAEL (Capitalization, Asset quality, Earnings, and Liquidity) rating is 2, (1 being excellent).

**CUSTODIAL CREDIT RISK - INVESTMENTS**

For an investment, this is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities approved in the Village's investment policy which is in accordance with State law.

**CONCENTRATION OF CREDIT RISK, INTEREST RATE RISK AND FOREIGN CURRENCY RISK**

The Village's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

**Investments:**

The Village Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Village to deposit and invest in the following;

- \* Accounts of federally insured banks, credit unions and savings and loan associations
- \* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- \* United States government or federal agency obligation repurchase agreements
- \* Banker's acceptances of United States banks
- \* Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase

**VILLAGE OF LINCOLN**  
**ALCONA COUNTY, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2008**

\* Mutual funds registered under the Investment Company Act of 1940, Title 1 of Chapter 686, 54 Stat, 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Village's deposits and investments are in accordance with statutory authority.

**NOTE 4 – PROPERTY TAXES**

Property taxes include amounts levied against all real property and tangible personal property located in the Village. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

**PRIMARY GOVERNMENT**

For the 2007 tax year, the taxable value for properties located within the Village was \$18,945,734 and the state equalized value was \$21,683,600. The total tax rate was 7.4700 mills.

**PROPERTY TAXES RECEIVABLE**

The delinquent real property taxes of the Village of Lincoln are purchased by the County of Alcona. The County intends to sell tax notes, the proceeds of which will be used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year.

**NOTE 5 - UNEMPLOYMENT COMPENSATION**

The Village is subject to the Michigan Employment Security Act and has elected the reimbursement method. Under this method, the Village must reimburse the Employment Agency for all benefits charged against the Village. No liabilities have been incurred as of March 31, 2008.

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the current fiscal year follows:

	Balance 4/1/2007	Additions	Deletions	Balance 3/31/08
<b>GOVERNMENTAL ACTIVITIES:</b>				
Capital assets not being depreciated				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Capital assets being depreciated				
Buildings	86,500	-	-	86,500
Equipment	200,000	-	-	200,000
Office Equipment	2,996	1,252	-	4,248
Total capital assets being depreciated	289,496	1,252	-	290,748
Less: accumulated depreciation	(82,973)	(13,026)	-	(95,999)
Total capital assets being depreciated, net	206,523	(11,774)	-	194,749
Governmental activities capital assets, net	<u>\$ 207,523</u>	<u>\$ (11,774)</u>	<u>\$ -</u>	<u>\$ 195,749</u>

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008**

	Balance 4/1/2007	Additions	Deletions	Balance 3/31/08
<b>BUSINESS-TYPE/INTERNAL SERVICE ACTIVITIES:</b>				
Capital assets not being depreciated				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Capital assets being depreciated				
Buildings	28,260	-	-	28,260
Equipment	154,235	-	-	154,235
Infrastructure - Sewer System	471,008	-	-	471,008
Total capital assets being depreciated	653,503	-	-	653,503
Less: accumulated depreciation	(364,535)	(20,034)	-	(384,569)
Total capital assets being depreciated, net	288,968	(20,034)	-	268,934
Business-type activities capital assets, net	\$ 289,968	\$ (20,034)	\$ -	\$ 269,934

Depreciation was charged to the Village's functions as follows:

Governmental activities		
General government		\$ 13,026
Total depreciation expense-governmental activities		<u>\$ 13,026</u>
Business-type activities		
Sewer Fund		\$ 12,406
Equipment Rental Fund		7,628
Total depreciation expense – business-type activities		<u>\$ 20,034</u>

**NOTE 7 – LONG – TERM DEBT – GENERAL FUND**

The following is a summary of the debt outstanding in the Village as of March 31, 2008:

This loan was for the purchase of a fire truck.

Loan:	Interest Rate:	Original Debt:	Principal Outstanding:
Note Payable	4.12500%	\$ 130,000	\$ 84,325

The annual principal requirements for the years ending March 31, 2009 through 2013 for the note payable outstanding as of March 31, 2008 are as follows:

	Amount
7/1/2009	\$ 12,646
7/1/2010	13,178
7/1/2011	13,733
7/1/2012	14,311
7/1/2013	14,914
Thereafter	15,543
Total	<u>\$ 84,325</u>



**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008**

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The following is a summary of long-term debt transactions of the Village for the year ended March 31, 2008:

Long-term debt at April 1, 2007	\$ 96,459
Less principal payments	<u>12,134</u>
Balance March 31, 2008	<u><u>\$ 84,325</u></u>

**NOTE 8 – RISK MANAGEMENT**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and worker's compensation benefits provided to employees. The Village has purchased commercial insurance for property, personal liability, umbrella coverage, worker's compensation and medical benefits claims. Settled claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

**NOTE 9 – PRIOR PERIOD ADJUSTMENT**

Within the Sewer fund, a prior period adjustment of \$9,805 was required to adjust accumulated depreciation to the correct amount.

**NOTE 10 - INTERFUND ACTIVITY**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as Interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayment from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NOTE 11 - EMPLOYEE SICK AND VACATION LEAVE**

Village employees are not allowed to accumulate vacation and sick pay; therefore, no liability has been shown in the financial statements in accordance with Governmental Accounting Standards Board's Statement No. 16 "Accounting for Compensated Absences".

VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
MARCH 31, 2008

	SPECIAL REVENUE FUND
	Local Street Fund
<b><u>Assets</u></b>	
Cash	\$ 8,436
Investments	15,000
	<hr/>
Total Assets	\$ 23,436
	<hr/>
<b><u>Liabilities</u></b>	
Due to Other Funds	\$ -
Accounts Payable	-
	<hr/>
Total Liabilities	-
	<hr/>
<b><u>Fund Balance</u></b>	23,436
	<hr/>
Total Liabilities and Fund Balance	\$ 23,436
	<hr/>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN**  
**ALCONA COUNTY, MICHIGAN**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE FISCAL YEAR ENDED MARCH 31, 2008**

	SPECIAL REVENUE FUND <u>Local Street Fund</u>
<b><u>Revenues</u></b>	
Intergovernmental income	\$ 12,997
Interest and rentals	190
Total Revenues	<u>13,187</u>
<b><u>Expenditures</u></b>	
Public works	34,510
Total Expenditures	<u>34,510</u>
<b>Excess of Revenues Over Expenditures</b>	(21,323)
<b>Other Financing Sources (Uses)</b>	
Transfers from (to) other funds	<u>-</u>
<b>Net Changes in Fund Balance</b>	(21,323)
<b>Fund Balance, beginning of year</b>	<u>44,759</u>
<b>Fund Balance, end of year</b>	<u><u>\$ 23,436</u></u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED MARCH 31, 2008**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>Revenues</u></b>				
<b>Taxes</b>				
Current tax levy	\$ 50,000	\$ 46,000	\$ 47,104	\$ 1,104
Total Taxes	<u>50,000</u>	<u>46,000</u>	<u>47,104</u>	<u>1,104</u>
Local grants	-	12,000	12,340	340
State revenue sharing	22,000	22,000	27,304	5,304
Charges for Services	4,300	-	-	-
Fire Protection	20,500	35,000	37,764	2,764
Other Revenues - Miscellaneous	80	15,000	19,123	4,123
Interest	<u>1,500</u>	<u>2,500</u>	<u>5,078</u>	<u>2,578</u>
 <b>Total Revenues</b>	 <u>\$ 98,380</u>	 <u>\$ 132,500</u>	 <u>\$ 148,713</u>	 <u>\$ 16,213</u>

(CONTINUED ON NEXT PAGE)

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED MARCH 31, 2008**

(CONTINUED FROM PREVIOUS PAGE)

	Original Budget	Final Amended Budget	Actual	Variance
<b><u>Expenditures</u></b>				
Legislative	\$ 7,400	\$ 7,400	\$ 7,320	\$ 80
<b>General Government</b>				
Council	23,850	23,850	23,180	670
President	3,553	3,553	3,300	253
Clerk	8,912	8,912	8,729	183
Treasurer	8,854	8,854	8,816	38
Village Hall	8,200	8,200	5,237	2,963
Other reimbursed payroll (net)	-	3,500	3,427	73
<b>Total General Government</b>	<b>53,369</b>	<b>53,369</b>	<b>52,690</b>	<b>4,106</b>
Debt Service	16,128	16,128	16,128	-
Fire Department	25,250	25,250	23,911	1,339
Medical First Responders	9,900	9,900	8,650	1,250
<b>Total Public Safety</b>	<b>35,150</b>	<b>35,150</b>	<b>32,561</b>	<b>2,589</b>
Parks and Recreation	16,732	16,732	21,932	(5,200)
Capital Outlay		1,500	1,252	248
Public Works	7,553	7,553	10,642	(3,089)
<b>Total Expenditures</b>	<b>112,804</b>	<b>114,304</b>	<b>142,525</b>	<b>(1,346)</b>
Excess of Revenues Over Expenditures	(14,424)	18,196	6,188	(1,702)
<b>Net Change in Fund Balance</b>	<b>(14,424)</b>	<b>(3,921)</b>	<b>6,188</b>	<b>(1,702)</b>
<b>Fund Balance, beginning of year</b>	<b>277,600</b>	<b>277,600</b>	<b>277,600</b>	<b>-</b>
<b>Fund Balance, end of year</b>	<b>\$ 263,176</b>	<b>\$ 273,679</b>	<b>\$ 283,788</b>	<b>\$ (1,702)</b>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
OTHER SUPPLEMENTAL INFORMATION  
BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY  
APRIL 30, 2007**

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**ASSETS**

Cash and cash equivalents	\$ 73,230
Receivables	<u>94,048</u>
 Total Assets	 <u><u>\$ 167,278</u></u>

**LIABILITIES AND FUND BALANCES**

Liabilities	<u>\$ -</u>
 Fund Balances:	
Unreserved	
Undesignated	<u>167,278</u>
 Total Fund Balances	 <u>167,278</u>
 Total Liabilities and Fund Balances	 <u><u>\$ 167,278</u></u>

**VILLAGE OF LINCOLN  
ALCONA COUNTY, MICHIGAN  
OTHER SUPPLEMENTAL INFORMATION  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY  
APRIL 30, 2007**

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**REVENUES**

Taxes	\$ 99,613
Interest and rents	2,216
Other	<u>3,115</u>
 Total Revenues	 <u>104,944</u>

**EXPENDITURES**

General government	96,271
Capital outlay	<u>-</u>
 Total Expenditures	 <u>96,271</u>

<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>8,673</b>
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<b>FUND BALANCE, beginning of the year</b>	<u>158,605</u>
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<b>FUND BALANCE, end of the year</b>	<u><u>\$ 167,278</u></u>
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Report on Internal Control and Audit Results

To the Village Board  
Village of Lincoln  
117 W. Fiske  
Lincoln, MI 48742

We have audited the financial statements of the governmental activities, the business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of Village of Lincoln as of and for the year ended March 31, 2008, which collectively comprise the Village of Lincoln's basic financial statements and have issued our report thereon dated September 30, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated August 1, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with the U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Lincoln are described in Note 1 to the financial statements. No new policies were adopted and the application of the existing policies was not changed during the fiscal year. We noted no transactions entered into by the Village of Lincoln during the year for which there is a lack of authoritative guidance of consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Village of Lincoln's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent, and clear.



### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

### **Disagreements with Management**

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased that no such disagreements arose during the course of our audit.

### **Management Representation**

We have requested certain representations from management that are included in the management representation letter associated with the audit for the year ended March 31, 2008.

### **Other Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Lincoln's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Communication Regarding Internal Control**

In planning and performing our audit of the financial statements of the Village of Lincoln as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Lincoln's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Village of Lincoln's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

## SAS 112 COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

### **SIGNIFICANT DEFICIENCIES:**

#### **1. Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements**

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).
Condition:	As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the Village's <i>internal</i> controls.
Cause:	This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.
Effect:	As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Official:	The Village has evaluated the cost verses benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the Village to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

## **2. Recording, Processing and Summarizing Accounting Data**

Criteria:	All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).
Condition:	As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the Village has placed reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the Village's <i>internal</i> controls.
Cause:	This condition was caused by the Village's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.
Effect:	As a result of this condition, the Village lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The Village has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, and summarizing of accounting data, and determined that it is in the best interest of the Village to rely on its external auditors to recommend the necessary adjustments.

## **3. Interest Income not properly allocated:**

During the course of the audit, it was noted interest income was not being allocated among the different funds making up the money earning it in a timely fashion.

According to generally accepted accounting principles, local units of government are permitted to combine the cash of several funds into one common cash account. However, the records must clearly reflect the portion of the interest earned and must be prorated among the participating funds.

It is our recommendation that the Village prorate the interest earned to the respective income and cash accounts at the time the interest is earned to make interim financial reports accurate.

## **MATERIAL WEAKNESSES:**

## **4. Review and Approval of Journal Entries**

Criteria:	All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).
Condition:	Most journal entries are prepared and posted to the general ledger accounting system by one employee.
Cause:	The Village's current internal control procedures do not require that journal entries are reviewed and approved by a responsible official that is independent of the journal entry preparation.

Effect: As a result of this condition, journal entries can be posted to the general ledger system, without any indications of review or approval.

Recommendation: We recommend that the Village adopt and enforce a policy that requires significant adjusting journal entries to be reviewed and approved by a responsible independent official, prior to being posted to the general ledger.

## 5. Bank Reconciliations

Criteria: A strong system of internal controls mandates that cash accounts are properly reconciled on a periodic basis.

Condition: The Village does not reconcile all of their cash accounts to supportive documentation during the year, which requires significant adjustments to properly state the accounts at year end. Some cash accounts are reconciled to check books or a manual ledger; however, the general ledger balances are not updated to reflect all activity included in the manual system. In addition, the Village has historically relied on its independent external auditors to assist in the preparation of bank reconciliations. Accordingly, the Village has placed reliance on its *external* auditors, who cannot by definition be considered a part of the Village's *internal* controls.

Cause: This condition was caused by the Village's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

Effect: When the Village does not reconcile all of their cash accounts on a timely basis, the cash is more susceptible to fraud and misstatement. In addition to cash becoming misstated during the year, the lack of reconciliations also affects the proper reporting of revenues, expenditures, and transfers.

Recommendation: We strongly recommend that the Village review their current bank reconciliation procedures and make appropriate alterations to those procedures to ensure that all bank account balances are properly reconciled in a timely manner throughout the year. We also recommend that the procedures include the timely resolution and correction of reconciling items. In addition, the completed bank reconciliations should be reviewed and approved by a responsible Village official. This would ensure that bank reconciliations are being completed in a timely manner and that unusual activity is not occurring.

## 6. Procedures for Voided Checks

Criteria: All governments are required to have a strong system of internal controls to safeguard assets.

Condition: Voided checks were discovered that were still fully in tact and able to be cashed.

Cause: The Village's system of internal controls does not mandate this process currently.

Effect: As a result, voided checks could futuristically be cashed and used for unintended and inappropriate purposes.

Recommendation: We recommend that the Village adopt a policy mandating that any voided check have the signature block cut off of the actual check or crossed out in a permanent form. The actual check should then be retained for future documentation.

## **7. Accurate Recording of Data**

Criteria:	All governments are required to maintain a general ledger system that accurately represents the transactions of the government and conform to Generally Accepted Accounting Standards (GAAP).
Condition:	We discovered numerous instances of erroneous data entry, including checks clearing the bank for different amounts than what had been recorded in the general ledger. Several disbursements were inconsistently posted to the general ledger and coded to incorrect general ledger accounts.
Cause:	Management lacks the training required to accurately maintain the computer based general ledger system in which it relies on record keeping purposes.
Effect:	As a result, the interim financial statements produced from the computer based system are not reliable, which may cause budgeting problems throughout the year.
Recommendation:	We recommend that the Village hire an independent consultant to walk them through the complete data entry process for a period of time sufficient to lend a feeling of comfort moving forward. In addition, we also recommend that the Village forego the current system and begin with the audited balance sheet numbers as of April 1, 2008 to ensure data integrity. Lastly, we recommend that the Village approve the consulting with outside professionals on a monthly basis for help with posting items in question, if necessary. This can save the Village money in the long run.

## **8. Segregation of duties:**

Criteria:	All governments are required to have a strong system of internal controls to safeguard assets.
Condition:	The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions, review of transactions and subsequent control of assets.
Cause:	The Village cannot enact a complete separation of all aspects of each transaction due to the nature of local unit government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.
Effect:	As a result, the Village must understand the limits of their internal control system.
Recommendation:	We recommend that the Village Board Members understand these circumstances when performing their oversight responsibilities.

## **9. A banking risk exists due to all resources being at one institution:**

Criteria	All governments are required to have internal controls in place to minimize risk.
Condition:	By spreading cash deposits to more than one financial institution, the Village's assets would be FDIC insured in their entirety. Time and savings deposits are insured up to \$100,000 per custodian and demand deposits are also insured up to \$100,000 per custodian. The Village may have more than one official custodian, thereby increasing the amount of coverage the Village has, however, if the exercise of authority or control over the funds of the Village requires action by or the consent of two or more custodians,

the two custodians together will be treated as one official custodian for the purpose of calculating deposit insurance coverage.

Cause: Some of the Village's cash and cash equivalents are not insured for bank failure.

Effect: The Village is at risk for asset loss.

Recommendation: The Village should move some accounts to a different institution, thereby minimizing custodial credit risk.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated September 30, 2008.

This communication is intended solely for the information and use of the Village Board of the Village of Lincoln and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Johnson & Schulze, PC  
September 30, 2008